

WRICKING THE LABOR BANKS

by W^m Z. Foster

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WRECKING THE LABOR BANKS

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No. 10	THE WORLD'S TRADE UNION MOVE- MENT—A. LOSOVSKY50
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WRECKING THE LABOR BANKS

*The Collapse of the Labor Banks and
Investment Companies of the Brother-
hood of Locomotive Engineers*

By WM. Z. FOSTER

TRADE UNION EDUCATIONAL LEAGUE
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CHAPTER I

A GOLDEN DREAM

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ABOUT 1920 the trade unions began to go into business on a large scale. From then on for five years there was organized by them an imposing array of labor banks, labor investment companies, trade union life insurance companies, etc. At present writing there are 36 labor banks, 11 investment corporations, 3 trade union life insurance companies, and various other concerns, with combined assets, at least on paper, of about \$150,000,000.

The basis of this movement is the assembling by the trade union leaders of such meager savings as the workers are able to make out of their slim wages and then to invest them in industry. Although calling itself a cooperative movement, trade union capitalism is in reality nothing of the kind. The control of the various financial institutions rests entirely in the hands of the reactionary officialdom of the unions who, in the name of the unions, vote a majority of the stock. Similarly, the business practices and ideals of the movement have nothing in common with real cooperation. The whole thing is saturated from top to bottom with capitalistic aims and methods. The present writer dubbed the system "trade union capitalism," and that describes it correctly.

The spectacular rise of trade union capitalism was accompanied by a whole series of illusions, which the bureaucrats spread widely among the workers. The essence of these is that struggle against the employers, by strikes and aggressive political action, is unnecessary—all that the workers have to do is to save their pennies, invest them in industry, and thereby become capitalists. The slogan of the movement is "Labor is becoming Capital." Professor Carver of Harvard gave

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authentic voice to the whole movement in his recent book, *The Present Economic Revolution in the United States*. He says (p. 118):

"The saving power of American workingmen is so great that if they would save and carefully invest their savings *in ten years they would be one of the dominating financial powers of the world.*"

As for the railroad workers, says Carver (p. 124):

"If the railroad workers would save merely the increase which they have recently received in their wages . . . (and) if they bought railroad stocks at par, they could . . . buy \$3,490,000,000 in five years. This would give them a substantial majority of all the outstanding stock."

The most extravagant estimates were made on all sides regarding the future of labor banking and other phases of trade union capitalism. In the *Saturday Evening Post* of Nov. 6, 1926, Frank Stockbridge, in an article directly inspired by B. of L. E. officials, says typically:

"New labor banks are being projected and organized at the rate of dozens a year. I was told in one place of fifty which are expected to be in operation before the end of 1927."

The B. of L. E. Leads the Way

Undisputed leader in this capitalistic banking movement was the Brotherhood of Locomotive Engineers. Its vast financial structure and dizzy array of banks and investment companies dwarfed all the rest. Its officials set the pace for the whole movement. It was a pioneer in every branch. Its word on labor banking was gospel to the trade union officialdom.

The question of establishing a labor bank was first proposed to the B. of L. E. at its convention in 1912, but it was voted

down. In the 1915 convention, however, the delegates voted to set up a bank to handle the union's growing funds. But the war situation prevented definite action until 1920, when the Brotherhood of Locomotive Engineers Cooperative National Bank was opened in Cleveland. Its popularity was instantaneous. A "miraculous flow of gold came in from every side." Within a couple of years its resources totalled \$27,000,000.

Their appetites whetted by this golden success, the B. of L. E. officials, under the thumb of the Czarlike Warren S. Stone, launched headlong into a program of frenzied financing such as has seldom been seen in this country. Declaring that it was as easy to operate a bank as to run a peanut stand, Grand Chief Engineer Stone proceeded to establish labor banks all over the country. All that was necessary was money to float them, then riches would come. The engineers scraped together their savings and, trusting their officials implicitly, poured their money into the various financial schemes one after the other. The following are the principal banks and other companies and investment projects organized in this campaign:

LABOR BANKS

<i>City</i>	<i>Capital</i>	<i>Resources</i>
Cleveland	\$1,000,000	\$27,000,000
Hammond, Ind.	25,000	1,750,000
Spokane	200,000	3,000,000
Hillyard, Wash.	25,000	236,286
Seattle	250,000	1,126,621
Tacoma	200,000	2,929,338
San Francisco	500,000	2,500,000
Nottingham, Ohio	75,000	823,694
Boston	500,000	4,135,828
Philadelphia	500,000	1,942,339
Birmingham	500,000	1,957,598

WRECKING THE LABOR BANKS

New York	700,000	7,250,000
Portland	200,000	2,327,207
Minneapolis (with other unions)	200,000	
Three Forks, Mont. (with other unions)	25,000	200,000
Sarasota, Fla.	100,000	

HOLDING COMPANIES AND INVESTMENT CORPORATIONS

	<i>Capital</i>
Brotherhood Holding Company.....	\$1,000,000
Brotherhood Investment Company.....	10,000,000
New York Empire Company.....	700,000
B. of L. E. Securities Corp. of N. Y.....	3,000,000
California Bro. Investment Company.....	1,000,000
B. of L. E. Securities Corp. of New England	2,000,000
Pacific Bro. Investment Company.....	4,000,000
B. of L. E. Securities Corp. of Pennsylvania	3,000,000
Southern B. of L. E. Securities Company..	2,000,000
Brotherhood Realty Company.....	1,000,000
United Holding Company.....	

SUBSIDIARIES, INDUSTRIAL COMPANIES, ETC.

Brotherhood Watch Company	California Brotherhood Invest. Co.
Scudder Furnace Company	Pacific Empire Company
Universal Finance Company	Pacific Insurance Company
Fuel Distributors, Inc.	Brotherhood Safe Deposit Co.
Sandusky Stone Products Co.	Assured Thrift Agency
Sunbeam Groceries Company	Assured Thrift Corporation
Hobert-Stone Company	Universal Mortgage Corp.

Etc., etc., etc.

REAL ESTATE AND OTHER INVESTMENTS

B. of L. E. Office Building.....(cost)	\$1,176,751
B. of L. E. Bank Building.....(cost)	6,600,934
Park Lane Villa.....(cost and debts)	2,800,000
Coal River Collieries.....(invested)	2,800,000
Equitable Life Building.....(invested)	2,394,000
Venice, Florida..(approximate investment)	16,000,000

In addition to the above-listed institutions and investments,

WRECKING THE LABOR BANKS

the B. of L. E. has or has had many other companies and interests which have more or less remained unknown publicly. For example, there was the investment in the Empire Trust Co. of New York, a \$90,000,000 corporation. Stockbridge says that "It was not much less than a half interest." Besides, there were many side issues, where the officials plunged into various companies on their own account, drawing the membership after them, a case in point being the \$10,000,000 Radio Corporation of which Stone was president.

All told, banks, investment corporations, real estate projects, industrial companies, etc., the financial enterprises of the B. of L. E. amounted to the imposing total of \$100,000,000.

Through Rose-Colored Glasses

For a time everything went lovely. Fulsome praise was poured out upon Stone and his associates for their "wonderful" financial achievements. They were the idols of every labor bureaucrat who itched to get his hands on the workers' slim savings. The capitalists welcomed the whole development, which they were quick to see worked entirely against militant unionism. Stockbridge, in his enthusiastic article in the ultra-scab *Saturday Evening Post*, said:

"Capital simply cannot afford to let the Brotherhood fail; it would be too serious a setback to the growing amity between capital and labor."

Wall Street opened its doors to Stone. Praise for him filled the capitalist press. He was the herald of a new day of no strikes and a docile working class. Stone declared that a new era had dawned for the labor movement. He divided labor history into three epochs. The first was the beginning of class consciousness and organization; the second was a general struggle for the right of collective bargaining, and the third, now beginning, is to be an era of cooperation with, rather than war against, the employers. Of the new devel-

opment the most striking manifestation is the labor bank. This theory of Stone's, seized upon by Matthew Woll and other reactionary leaders, has been developed by them into the so-called "Higher Strategy of Labor," the theory that it is not necessary to struggle against the employers, but to co-operate with (that is, surrender to) them.

Other B. of L. E. officials parroted Stone's ideas. Pren-ter said:

"In America there is no such thing as a working class as distinguished from a capitalist class. Men pass too readily from one group into the other to be tagged with class labels. It is the Brotherhood's aim in its financial enterprises to show its members and workers generally how they can become capitalists as well as workers."

And again, that in labor banking:

"We have demonstrated American labor's complete answer to the theories of Marx and Lenin."

Listen to the voice of Professor Carver coming from the mouths of B. of L. E. leaders in the *Engineers' Journal* of August, 1925:

"Labor banking is the only revolution in the world worth a peck of beans. Once let a majority of the workers and farmers of America learn to concentrate their savings and their credit power in their own banks and they can control the resources of the world's richest nation within one generation."

And harken to the words of wisdom of H. V. Boswell, a labor banker of the B. of L. E. (*American Labor Year Book*, 1926; p. 323):

"Instead of standing on a corner soapbox screaming with rage because the capitalists own real estate, bank accounts, and automobiles, the engineer has turned in and become a capitalist himself."

In the midst of such an atmosphere of wild promises of wealth and power the B. of L. E. financial institutions developed. Stone became absolute dictator. He reorganized the union on the basis of the new conceptions. He made himself President at \$25,000 a year, with almost as much more in expenses. The financial side of the union became dominant. The Protective Department, the section dealing with wages and working conditions, was relegated to a minor phase of the union's make-up and activities. The Grand Chief Engineer at the head of it was reduced to fourth ranking officer.

The rank and file of the union for the most part were hypnotized by Stone's "successes" and his sophistries. They believed his promises of riches to be won in industry, in finance, in real estate. They gathered together their hard-earned dollars and poured them unquestioningly into his various enterprises one after another as they were launched. So great was their confidence, for example, that only one circular letter to the membership sufficed to sell the \$1,000,000 capital stock of the Brotherhood Holding Co. The other companies were similarly accepted and financed. A deaf ear was turned to the more conscious, more clear-sighted elements in the union who warned against these developments. For the most part their warnings were scoffed at as the complaints of incurable radicals altogether out of touch with the realities of life. The union lived in a golden dream.

CHAPTER II

A RUDE AWAKENING

THE golden dream is now quite at an end. The disillusionment came during the B. of L. E. convention held in Cleveland from June 6 to July 21, 1927. The delegates got the shock of their lives. They suddenly discovered their union to be plunged into one of the greatest financial fail-

539251

ures in American history. The vast network of banks and investment companies, which they had thought to be such a glowing success, turned out to be nothing but a ghastly ruin, the whole thing tottering on the brink of bankruptcy, with sheriffs knocking on the door and lawsuits menacing from all sides. Their trusted and "brilliant" leaders they found out to be charlatans and grafters when not incredibly stupid and incompetent. They learned that not only were their banks and other financial concerns broke, but also that the union funds were gutted, and that they, personally, could be held liable for millions of dollars squandered in the incredible financial debauch. They confronted a desperate situation threatening the very life of their organization. It was indeed a rude awakening.

Faced by this crisis, the deepest in the 64 years' history of the B. of L. E., the delegates practically turned the convention over to a receivership, the Committee of Ten with an attorney, Judge Newcomb, at its head, to find a way out of the shambles. Then for six and a half weeks, the longest convention ever held by the B. of L. E., and at a cost of about \$1,000,000, they struggled to rid themselves of the herd of financial white elephants thrust upon them by their leaders and to find a way to save their organization.

Finance a la Peanut Stand

The convention showed practically every enterprise of the B. of L. E. to be bankrupt. Judge Newcomb said (p. 1405):* "The building of the home for the Brotherhood in Cleveland we think could be regarded as a wise move. Every other movement since that time impresses us as of very doubtful character." The lawyer, Squires, employed by the Brotherhood, condemned the whole system of financing in what Newcomb called (p. 1408) "the sternest arraignment from

* Where such page numbers are given in this pamphlet it refers to the page in the printed convention proceedings.

lawyer to client I have ever read in my experience." Delegate McIlvenny of the Committee of Ten sounded the general opinion when he said (p. 369), "Some years ago a man came out here on this platform (Stone) and said that banking was just as easy as running a peanut stand and, by God boys, that's the way she has been run."

The loss from the many wrecked institutions runs into the millions. No very definite totals were developed. The Committee of Ten submitted no general balance sheet. After studying the financial maze for several weeks Del. Van Pelt of the Committee of Ten said (p. 1888), "Does anybody know what we owe? Does the Committee of Ten know? Not by a damned sight." Some approximation of the loss can be made, however, from the emergency measures adopted by the convention to meet pressing obligations. First, the convention plastered a \$4,000,000 mortgage on the two Cleveland office buildings; then it put on a \$7,200,000 assessment on the membership. After all this, Chairman Myers of the Committee of Ten said (p. 2061): "I want to say that at the end of two years the committee will be badly mistaken if we don't find ourselves with an indebtedness of approximately \$8,000,000 hanging over us."

Thus the loss would be at least \$19,000,000. And this does not take into account millions lost by members in buying stock for which the B. of L. E. cannot be made directly responsible. Del. Merriman (p. 2015) even suggested a total loss of \$30,000,000, and no one rose to contradict him. That the losses are huge, possibly as much as \$20,000,000, was further indicated by the proposals of Mitten (to be dealt with later) which required that the B. of L. E. raise \$25,000,000 to cover its bad investments. How hard the erstwhile rich union is hit was indicated by a statement of Del. Huff, a Financial Trustee (p. 1983), "On July 19th we owed \$300,000 to the Corn Exchange Bank in New York and we didn't have a thin dime to pay it with."

Business institutions wrecked, union finances gutted, officials discredited, themselves tricked and robbed, the union itself menaced,—it was not a beautiful picture for the delegates. Judge Newcomb rubbed more salt into their wounds when he pointed out that the individual union members were responsible for all the bankrupt institutions in which the Brotherhood held a majority of the stock or where it had guaranteed the investments and loans. He said they were in the same position as the Danbury hatters, and declared (p. 2002):

"If there is any default on any of these guarantees which have been made they can track you back to your homes and follow you down personally and individually to your last dollar."

The Morning After

As the full force of the disaster hit the delegates they began to get an inkling of what the left wing meant when it had declared in season and out that trade union capitalism is fatal to trade unionism. Let a few quotations illustrate the way the convention was flattened by the news:

"I liken this situation a great deal to the San Francisco earthquake, when the city was shaken down and burnt up. It has hit us something like that earthquake." Del. Burbank (p. 2130).

"You are still, in my opinion, going to have to pass through a baptism of fire; you are simply in the midst of it at the present time. Del. Smith, (p. 2132).

"We have been in the worst condition it was possible for us to get into." Del. Hedges (p. 2133).

"We have had a bitter, bitter experience." Del. Johnston, (2133).

"We are broke and we know we are broke. What is the use of finding out any more about being broke. We are in the soup and the more of the committee (of Ten) we get, the more we will find out about being broke. The idea is to get everybody at the pumps, get the lifeboats out and save the day." Del. Nelson (p. 392).

"There never was a bunch of men in the history of this organization

or any other that went out (from convention) with such a task." Del. Barret, (p. 1959).

"You stand here today confronted with a situation that I do not believe a labor organization at any time before this, in all the history of the world, had to combat." Del. McGuire (p. 672).

Although the delegates were manifestly determined to save their union at all costs, something of a panic hit the convention as disaster piled on disaster. The lawyers, with their own financial plans in mind, cultivated this panicky feeling. Said a letter from Attorney Squires (p. 1408):

"We do want to impress upon you that in our judgment you are rapidly running to ultimate destruction of your Brotherhood itself and that no measures can be too heroic to be taken by you at once to save the situation."

And Judge Newcomb (p. 1761):

"If in this matter I was representing a private corporation I would say 'Let the law take its course,' but I say to you men that I believe you will never under heaven save this organization unless you protect the financial end of it."

One thing the delegates learned—that they have had a sufficiency of trade union capitalism. All voiced that sentiment. It would have taken a brave "labor-banker" to face that disillusioned and enraged body of engineers and spin to them the fairy tales, formerly gospel in the organization, about labor becoming capital and the workers winning a competence by investing in labor banks and similar concerns. Even the most reactionary of the leaders had to yield to the spirit of disgust towards labor financiering that animated the rank and file. Del McGuire of the Committee of Ten sounded the keynote when he said (p. 2002):

"I have been giving all my time for several weeks to studying this problem and it has resolved itself into three or four words, and they

are: 'Get out of it, and the quicker you get out of it, why the better off you will be.'"

The leaders who managed to save their skins in the house cleaning which took place all came forth, for convention purposes at least, as strong opponents of trade union capitalism and its works. They tried to get a fresh hold upon the rank and file by capitalizing the indignation and resentment in the latter's hearts. Thus, Assistant Grand Chief Engineer Edrington, himself all involved in the financial disasters, put into voice the determination of the body of delegates when he said (p. 2132):

"I hope to see the day come when we can forget about investment companies, holding companies, realty companies . . . and get back to the old Brotherhood as a labor organization."

CHAPTER III

A SURVEY OF THE WRECKAGE

PARTLY because of confusion in the tangled records and partly because of efforts of the leaders to cover up, full details of the wrecking of the B. of L. E. financial institutions and resources were not brought out at the convention. But at least enough was exposed to give a definite picture of the general devastation wrought by the labor Ponzi. In the ensuing paragraphs will be pointed out the state of affairs in which the various investment concerns and projects found themselves at the opening of the convention, before the "labor-bankers" got to work upon them desperately in efforts to salvage some of the pieces of the shattered financial system.

The Cleveland Bank

The Cleveland bank was the clearing house for all the wild-cat speculations of Stone, Webb, and their crowd of frenzied

financiers. As fast as it would get loaded up with bad paper coming from the criminally incompetent and reckless investments new holding or investment corporations would be organized, the stock of these being sold to the trusting Brotherhood members, and then the worthless paper exchanged for the new company's good money.

Through wild jugglery the Cleveland bank got into grave difficulties. When the convention opened it was in a grave crisis. It was in the hole with "frozen assets" (a polite term for worthless paper) to the tune of \$1,600,000. The bank examiners were literally standing at the door ready to close it. As soon as its precarious condition became generally known, through the sensational convention disclosures, a run on the bank started. Not only individuals but also sections of the B. of L. E. fell over each other in their eagerness to take out their funds from the tottering bank. So low had Stone's "wonder institution" fallen in prestige. It is stated that over \$2,000,000 was withdrawn within a few days. The bank trembled on the verge of bankruptcy, a collapse which would pull down with it the whole flimsy financial house of cards of the B. of L. E. It had to be given a dose of oxygen immediately.

Various others of the banks were in trouble or had been. For example, the New York bank found itself with \$500,000 of worthless paper, and threatened with foreclosure. The Cleveland bank took up this junk, thereby increasing its own difficulties, and the New York bank was sold. The Philadelphia bank also got into similar trouble. It fell into the clutches of the Mitten interests. The Birmingham bank was similarly wrecked and then sold.

The Brotherhood Holding and Investment Companies

These two companies were the financial refuse heap of the B. of L. E. "financiers." Said Del. McDermand, Com. of Ten (p. 1306):

"What were these companies organized for? Just to furnish a dump to wash out the bad paper of the banks . . . the first holding company (B. of L. E. Holding Co.) was organized for \$1,000,000 for that purpose. When they got it organized and got the stock sold it was not big enough, they had more paper that had to be gotten out of the banks. So they organized a \$10,000,000 corporation (B. of L. E. Investment Co.) They said, 'Let's make it big enough this time.' Then they started to fill that up if you please."

The \$10,000,000 of preferred stock of the B. of L. E. Investment Co. was gobbled up by the union members, even as the \$1,000,000 of its predecessor, the B. of L. E. Holding Co. It cost \$1,500,000 to float the Investment Company. The rest was invested in various wildcat adventures. Del. McDermand said that the Investment Company would have had to earn from 15% to 20% in order for the engineers to get a cent out of it. And it could earn nothing. Among the "assets" of the Investment Company were one item of \$5,231,176 interest in the mad Florida land venture, and another of \$1,775,000 in the equally foolish Coal River Collieries, neither of which notes are worth much more than the beautifully lithographed paper upon which they are inscribed. The B. of L. E. auditors reported that with "few exceptions" the assets of these two companies were "frozen."

Coal River Collieries

This project constitutes not only a heavy financial loss but also a deep shame to the B. of L. E. It was capitalized at \$5,000,000. But let Judge Newcomb tell about it (p. 1410):

"\$2,800,000 worth of stock in the Coal River Collieries has been issued. The Coal River Collieries owes your Investment Company \$1,650,000, to other creditors it owes approximately \$300,000. It needs for immediate equipment, if that property is to function as it should, an expenditure of \$500,000. That is Coal River . . . if you tried to save Coal River Collieries you would be sending good money after bad. That is a wipe out, men."

Now let John L. Lewis, President of the United Mine Workers, tell how this shameful piece of union wrecking was carried on—*The Nation*, Mar. 18, 1925:

"Immediately, Coal River Collieries, whose mines are in the non-union territory of southern West Virginia and northeastern Kentucky, joined in an assault upon the Jacksonville agreement. Up to that time Coal River Collieries had employed union miners and paid the union scale in the West Virginia mines, but had operated its Kentucky mine non-union. Mr. Stone, like other non-union operators, demanded that his employees take a reduction in wages. The United Mine Workers refused. Mr. Stone closed down his West Virginia mines rather than pay the union scale. Next Coal River Collieries imported strike-breakers from the non-union fields of Virginia, Kentucky, and Alabama. . . . Then the union miners were evicted from their homes. The U. M. W. A. has made not only repeated but continuous efforts to adjust this matter with Mr. Stone and his company, but it has met with the same identical refusals and opposition that it has many times experienced with cold-blooded, hard-boiled, non-union coal companies."

Coal River Collieries is a noisome example of the degenerating and disastrous influence of trade union capitalism.

Park Lane Villa

"We have another little investment out here called Park Lane Villa."—Judge Newcomb.

Park Lane Villa was one of Stone's financial fantasies. It was a gorgeous apartment hotel in one of Cleveland's most aristocratic sections, hard by Rockefeller Park. It turned out to be unrentable and had to be rebuilt at a cost of several hundred thousand dollars. Stone lived there, in an apartment costing \$1,100 per month. During the convention other officials of the union were accused of paying as much as \$600 per month rent there. The report of the Committee of Ten (p. 10) says of Park Lane Villa:

"Park Lane Villa is obligated to the extent of \$1,000,000 on first mortgage to the B. of L. E. Investment Co., \$600,000 on second mortgage to the B. of L. E. Holding Co., and \$1,000,000 in other obligations, make this venture what might, with propriety, be called a losing game."

During the convention this \$2,600,000 investment was sold for \$1,250,000, after five minutes' consideration by the delegates.

The Equitable Building

This was one investment from which the B. of L. E. made some money, but it left a terrible stench behind. Some discrepancies exist as to how much the Brotherhood gained in this venture. Judge Newcomb (p. 1402) said the profit was \$967,000. But Del. McDermid, Committee of Ten, said (p. 1306), "They sold the Equitable Building and the Empire Trust and they made a profit of approximately \$1,500,000." Out of this \$1,500,000, he said, a fake dividend of \$700,000 was declared and the rest was chucked into the vast Florida land speculation.

Shortly after this sale, Mr. Baldwin, the purchaser, made a "present" of \$35,000, through Mr. Webb, the B. of L. E. financial "expert," to the fourteen head officials of the union, amounting to \$2,500 each. He appeared to be very grateful for their services. One explanation might be found in the fact that the stock advanced from \$53 to \$91 per share after he bought it. Did he know of the coming advance when he bought the stock? Did the union officials know it? Seeing their clean record in this whole financial debauch, of course no one would accuse them of such collusion. But they pocketed Mr. Baldwin's "present." Later, when the matter was made an issue at the convention, some of them turned it into the union. Others kept it. When Prenter, Stone's successor as President of the union, was questioned about his

share, he said defiantly, "I took mine and it's nobody's damned business" (p. 1335).

The B. of L. E. Buildings

The B. of L. E. has two big office buildings in Cleveland. The first one built, known as the B. of L. E. Office Building, cost \$1,176,751. It is fairly successful, producing a net earning of \$105,339 in 1926. The second one, the B. of L. E. Bank Building, is a big white elephant. It was built on an extravagant, cost plus basis, costing the enormous amount of \$6,600,934. From one-half to two-thirds of its offices constantly stand idle, the building being badly located. It operates at a loss. Up to date it has made a total deficit of \$276,289.

These two buildings, which together cost \$7,777,685 and which are worth probably \$6,000,000, were, at the opening of the convention, already blanketed with mortgages totaling \$7,500,000. As a result of the convention, by a financial juggle which we will explain later, another \$4,000,000 was added in mortgages, making \$11,500,000 all told. This would seem to "settle the hash" financially of these two debt-laden structures. They are both bankrupt. They cannot pay interest, much less principal.

The Insurance, Pension, and General Funds

Rich pickings for the labor-bankers were the organization funds of the B. of L. E. This was one of their two main sources of money supply, the other being the selling of gold brick stock to the union membership. They bled all the union's funds white. Especially they gutted the insurance and pension funds.

The B. of L. E. is based heavily upon the principle of insurance. The average age of its members is more than

50 years. The insurance and pension features are organized in separate societies, the Locomotive Engineers Mutual Life and Accident Insurance Association, and the B. of L. E. Pension Association. The benefits are high and a minimum of \$1,500 life insurance is compulsory. The union has \$189,000,000 of insurance on its books. At the close of 1925 there was in the insurance and pension funds \$10,694,000, after paying out \$4,394,000 during the year.

These funds have been used up to finance the various "blue-sky" propositions of Stone and Co. Without even a shadow of authority, the official clique poured vast sums of this insurance money into Florida and other financial sink holes. The biggest slab went into mortgages on the two Cleveland office buildings; namely, \$7,500,000. But the convention, in its wild search for money to save the many sinking financial ships, added another mortgage of \$4,000,000 to the buildings, as pointed out above. This mortgage was placed ahead of the \$7,500,000 mortgages owned by the insurance and pension funds, thus rendering the latter mortgages, in view of the low earning power of the buildings, largely worthless. The insurance and pension funds are virtually bankrupt and can only be replenished by taxation of the membership. Del. Henry struck a popular note when, referring to the guilty officials, he said (p. 1935):

"We have to clean those people out if we expect to live. We have to do it right. We have to put them where they belong. They have robbed the widows and orphans. They have robbed the poor old men of my division."

The B. of L. E. Realty Co.—Venice

The greatest financial disaster of the B. of L. E. was its vast land speculation at Venice, Florida, on the Gulf Coast below Tampa. In May, 1925, a month before he died, Stone called together the union leaders and informed them

that the union was in the hole at least \$4,000,000 as a result of its ill-fated business enterprises. (Grand Chief Johnston said [p. 1765] that the deficit was then \$6,000,000.) Then George T. Webb, the shyster lawyer-banker from North Dakota who was chief financial man for the B. of L. E., proposed that the union take a flyer in Florida land and recoup its fading fortunes. At that time Florida was experiencing its tremendous boom, the wildest orgy of land speculation in the history of America, with lots on the main street in Miami selling for almost as much as lots on Broadway, New York, and with other real estate in proportion. Stone agreed, but died before the actual gamble with the workers' funds began. In *The Railroad Amalgamation Advocate*, July, 1927, Jack Kennedy thus describes the program:

"Florida! Magic word! That was in 1925 when Florida was El Dorado indeed. Fortunes were being coined by mere signatures of the pen. Land values were soaring higher than real estate sharks had ever dreamed they could—even in the palmiest California days. The Brotherhood should plunge in Florida, clean up ten, twenty, thirty millions in a year. And Webb could be sure that he would clean up also. Accordingly it was announced to the world that the B. of L. E. had bought 30,000 acres of choicest Florida land. Here a model city—Venice—would arise. This year a swamp and a wilderness 20 miles from the nearest town. Next year the Miami of the Florida Gulf Coast."

Thus Gen. Sec'y Lindquist explained this wild speculative plunge (p. 702):

"Someone conceived the idea that Florida was booming and that we might be able to invest down there and turn it over in 90 days and thereby make sufficient money to take care of one or two dividends of the Investment Company."

The officially inspired article by Stockbridge in the *Saturday Evening Post* (written before the blow-up) says:

"With capital pouring into Florida from almost every big pool of wealth in America . . . the Brotherhood was not to be left out of that golden opportunity for profits."

Del McGuire, Com. of Ten, thus describes the adventure (p. 360):

"Why not go into Florida, reap a harvest over night, replenish our finances, and move out again after sacking the spoils. Florida laid a heavy toll on us and it was impossible to extricate ourselves."

The plan for a quick gamble and getaway with a few millions of easy Florida money developed into the proposition of building Venice into a city, a great new winter resort. Eventually 50,000 acres of land were purchased. For the promotion of this scheme, the B. of L. E. Realty Co., capitalized at \$1,000,000, was organized. Then a flood of money was poured into it, from insurance and pension funds, from the banks and investment companies, from the sale of stock to the membership. All the tricks of the sky-blue real estate sharks were used to inveigle the workers into this financial morass. To lure them visions of waving palm trees, tropical breezes, golden strands, marvellous climate, incomparable fishing, hunting and other features of a heaven on earth were spread before their eyes. "Come to Venice, the resort supreme on Florida's West Coast. There ten acres and independence await you," screamed the gaudy multi-colored circulars with which the members were deluged. Or they purred thus:

"While northerners are enduring all the unpleasant, costly, and actually dangerous results of cold weather, the happy sunbrowned people of Venice are enjoying their morning round of January golf, or bathing in the warm waters of the Gulf of Venice, or fishing in the Gulf, or picking their breakfast dish of winter-grown strawberries, oranges, or grapefruit."

Money poured into Florida. The building of Venice went ahead in an unparalleled maze of speculation, extravagance, and graft, when suddenly the bottom fell out of the entire Florida land boom. Real estate values fell to a half or a third of their former figures. The B. of L. E. was left holding the sack. Thus Jack Kennedy describes it:

"Blooie—and the bubble of Florida real estate promotion collapsed over night. The roads were clogged with autos seeking to escape the ruins. Grass began to grow on the "streets" of million dollar promotions. The real estate gentry escaped Florida in a flood which swamped all the Pullmans which could be rushed from the North. And there was Venice—disconsolate by the waters. Millions sunk in the city, millions more to be sunk before a penny could be realized."

At least \$16,000,000 of the union's and bank's money went into this wildcat venture. Besides many more millions were invested directly by the membership. Many an engineer invested his last dollar. All told, at least \$20,000,000 is involved. The crash of this project precipitated the union crisis. A couple of months before the convention, Attorney Squires thus sized up the situation (p. 1408):

"In my judgment the (Florida) matter has proceeded too far already and for the salvation of the Brotherhood must be stopped immediately. . . . Your first aim should be to save the Brotherhood, if possible, by finding somebody who will take your various investments, especially the Florida one, off your hands."

At the convention Judge Newcomb conservatively stated the Florida disaster as follows (p. 1408):

"There is your Florida situation. There isn't a saving sentence in that whole situation. . . . As near as your Committee of Ten can figure it out, it is somewhere around 11 or 12 millions in Florida. You are going to lose a very large, substantial part of that 12 millions."

Dr. Mitten estimated the investment as high as \$20,000,000. The Committee of Ten report says: "By sworn testimony the Florida investment is set at \$16,000,000." Immediate debts, mortgages, and other Florida obligations to the amount of \$2,885,000 stared the convention in the face. Judge Newcomb optimistically calculated that with the investment of several millions more in Florida for development purposes probably "five or six millions" could be rescued of the original investment after several years.

That is Florida. A holocaust of defeat. Dreams of wealth turned into nightmares of debt. Promised dividends changed into a flood of financial burdens. The very life of the union was threatened.

CHAPTER IV.

GRAFT, EXTRAVAGANCE, JUGGLERY, AUTOCRACY, INCOMPETENCY

IN previous chapters there has been pointed out the general gutting of the financial institutions and resources of the B. of L. E. In this chapter will be indicated the wrong tendencies and practices which inevitably grew out of and accompanied the B. of L. E. trade union capitalism, the corruption, wastefulness, chicanery, suppression of democracy, stupidity, etc., etc., and how these developments re-acted to further corrupt that leadership, to delude and demoralize the rank and file, to undermine the whole union, and to ruin the organization's financial enterprises.

Graft

The convention showed the B. of L. E. and its financial organizations to be saturated with graft and corruption of every description. The famous \$2,500 bribes in connection with the Equitable Building sale were but small time stuff

compared with others that developed. The various financial deals gave the greedy union officials ample opportunity to feather their nests at the expense of the union. Thus, for example, said the Committee of Ten report:

"It was stated to your committee that the purchase of the leasehold from a bankrupt concern by the Coal River Collieries Co. netted a profit to the promoters of possibly \$550,000. It was also stated by witnesses that the stock transactions netted Brothers Stone and Prenter in the form of bonuses, a personal profit estimated from \$60,000 to \$100,000 to each of these gentlemen."

Venice was full of such graft, most of which, in pursuance of the general policy of making matters look as good as possible, was not exposed at the convention. But the following item gives an inkling of what went on there:

"Up till March (1927) we had only \$7,000,000 at the most in Venice and Webb and his gang (the Empire Trust crowd) sold this organization about \$7,000,000 worth of land in 18,000 acres." Del. Abbott (p. 1974).

Speaking of this deal, Financial Trustee Huff wrote, Dec. 14, 1926 (p. 1284):

"The biggest thing before us now is in my opinion the matter of buying a lot of additional land that we do not need at all. It is simply a question of some people wanting to make a sale. One deal has already been put over and we have paid a big profit for some land owned by Mr. Webb and his friends, and there is a lot more under consideration, if not bought."

All this means that Webb and his labor leader cronies bought up Florida land cheaply and then palmed it off upon the union at greatly advanced prices. The \$7,000,000 worth in question was foisted upon the union just a couple or three months before the convention, when these officials knew that

the whole financial system was bankrupt. They depended upon the rank and file of the engineers to make good the financial obligations incurred by their leaders. How many hundreds of thousands, if not millions, the B. of L. E. "financiers" made out of this criminal swindle was not developed at the convention.

With such deals in mind it becomes easy to understand how Florida soaked up so many millions of the workers' money. It also grows clear how Mr. Prenter about this time could purchase a \$250,000 Cleveland estate and how his crony, Webb, could possess a \$750,000 mansion on Magnolia Drive, Cleveland's "Gold Row." Small wonder that Chairman Myers of the Committee of Ten declared that the printing of the 2,000 pages of evidence submitted in the private hearings of his committee "would be a history unparalleled by anything that has ever come to light" (p. 1340).

Salaries in the financial institutions provided a prolific source of graft. The union officials loaded up the payroll everywhere with their relatives and friends, incompetent and crooked, at enormous salaries. Thus Stone put his nephew, A. R. Stone, at the head of the New York bank. He ruined things. Upon Stone's death, said Del. Huff (p. 1344), they requested "that he would please leave the bank and not take anything with him but his hat, and he did." Webb, with Prenter's O. K., gave his North Dakota friend, Davis, a \$10,000 a year job in the New York bank. Another of his friends, Cass, he stuck at the head of the financial concerns on the Pacific Coast. J. P. Dunigan, President of Coal River Collieries, is a brother of Assistant Secretary Dunigan, and so on for hundreds of similar cases. The bureaucracy was built to the limit. Even Government officials protested at the shameful condition. Said the Federal Examiner (p. 1403), "Your salaries have gone from \$41,000 in the first six months that you operated this bank until today they are \$181,000 for six months." The Comptroller of the Currency

told Secretary Lindquist (p. 1272), "My God, Lindquist, look at the employees and officers you have in this bank, eighteen officers, you ought to run it with eight. Your overhead is double what it ought to be."

Webb got \$48,000 per year, aside from expenses and "what he could make." Many officials drew salaries from both the bank and the union. Said Del. McIlvenny (p. 2004), "We find Brother Fehr receiving a salary of a thousand dollars a month from the Investment Company and of \$5,400 a year from the B. of L. E. on a purely clerical job." Mr. Smith, head cashier of the Cleveland bank (another relative), received a monthly salary of \$800 and deposited \$1,000 each month to his savings account, an economical man; and "clerks are receiving as high as \$6,500 per year." Del. Huff declared (p. 1345) that the high paid people "paraded around here drawing their breath and their salary and not rendering any useful service." The conditions in the Cleveland bank were typical of all the financial institutions of the B. of L. E. throughout the country. They cannot be called wastefulness or inefficiency, they are unadulterated graft.

In the matter of union salaries and expenses the grossest graft existed, and continues to exist. Such salaries as Stone's \$25,000 per year and as much more for expenses is sheer looting of the treasury. The same can be said of the \$15,000 salary now being paid to Johnston, the new head of the union, and the \$10,000, and \$8,500 salaries paid to the dozen other "Grand" Assistants. Even the convention delegation itself was contaminated with the salary graft, the delegates voting themselves the extravagant amount of \$10 per day wages and \$8 expenses. The faker leaders, when charged with dishonesty, were able to accuse the delegates themselves of living on \$4.50 per day and putting the remaining \$3.50 of expense money in their pockets, thus further bleeding the gutted union treasury.

The case of Vice President Wills illustrates the official

corruption. Wills, Legislative Representative at Washington, has been an official of the union for almost 50 years. His salary was \$8,500 per year. Not content with this, plus a large political slush fund for which he was not required to make accounting, he charged the union \$6.00 per day for hotel expenses although he was living at home. At present he is 79 years old. At the age of 70 he became eligible for pension, 20% of his salary. For nine years he drew this pension money although he was on full time salary. Mr. Wills, a typical black reactionary, is reputed to be worth \$400,000. He was fired from active service by the convention.

The Committee of Ten's report says: "Some of your officers have lost all regard or appreciation of the fact that their expenses are drawn out of the funds of the organization or its subsidiary companies. . . . Some of your officers in traveling require a section of a sleeping car, others require drawing rooms, and in some few instances a special car was attached for their accommodation."

Judge Newcomb said (p. 1991), "Hundreds of thousands of dollars have gone into expense accounts that were unfair and untrue." Del. Van Pelt, Committee of Ten, said (p. 368), "This organization can save \$200,000 a year right upon an efficiency management in connection with its affairs." That is, by the elimination of payroll graft.

Extravagance

The B. of L. E. officials and their capitalistic partners squandered the money of the engineers like drunken sailors. On all sides they engaged in the most lavish and reckless expenditure. Said Del. Myers, Committee of Ten, "Our officers that we put all the confidence in the world in, have badly fallen down and wasted our millions." Just a couple of items out of hundreds—the San Francisco bank has \$215,000 in furniture and vault equipment, whereas even

the golden Cleveland bank, with all its graft and extravagance, has only \$187,000,—“I see where the manager here of the office building last year drew \$13,034 and \$10,933 for the bank building, \$23,969 charged to that department for handling of the offices of this building.” Del. Crawford (p. 1911).

What proportion of such expenditures is graft and what sheer extravagance cannot be determined. Suffice to say that undoubtedly the graft element is large. Consider the following item (p. 10, Com. of Ten report):

“The expense for furnishing Park Lane Villa was \$300,000. A Mr. Biskin, who negotiated the furnishings of the building, was given a bonus of \$65,000. Mr. Biskin later “served time” because he failed to make a return in his income tax for the amount of money involved in this transaction.”

What portion of this bonus went to the union leaders for their “services” was not made clear. Venice, of course, bristles with examples of wild expenditures. Speaking of the two hotels built there, Del. Simpson said (p. 1282):

“Two hotels, built on a cost plus basis, at a cost of approximately \$900,000—hotels that have never paid one cent overhead expenses and probably never will. . . . They are so flimsily built that you can't carry on a private conversation in any part of them without being heard all over the hotel.”

As for one of them, the “elegant Hotel Venice” of the circulars, Webb estimated that it would cost from \$175,000 to \$200,000. He reported that it did cost \$425,000. But investigation showed that the actual cost of it was \$633,000. Del. Huff (p. 1285) considered this “an enormous cost for what we have.” He said the real cost was about \$300,000. One scandalous item of expense was \$35,000 to the architects. Of this Del. Huff said: “This is outrageous. Plenty

of architects would have done the work for less than half the money. These people have the greatest graft I ever heard of. We are actually paying them a substantial fee on every building that goes up here. They do nothing but say whether they like the looks of the exterior or not."

An auditor's report said, "The affairs of the B. of L. E. Realty Co. have been managed in a most inefficient, extravagant, and unbusinesslike manner" (p. 358). Judge Newcomb declared (p. 1411), "Oh, the expenditures have been terrific! Your whole organization has been operated as if over here at the rainbow's end there was a pot of gold which would never run out." The promotion methods were equally extravagant. Money meant nothing to the blue sky artists in charge of Venice. One sample of methods was cited by Del. Kilburne (p. 695):

"On this Venice proposition, I saw a letter where they are offering free rides, free board, and everything to go down there. Who is paying for it? We have got brothers here on the floor of this convention who have received letters asking them to come to Chicago to take this free ride and have all the pleasures of the world in Venice."

Del. McGuire, Committee of Ten, declared (p. 360), "The B. of L. E. venture in Florida presents one of the most lavish expenditures of funds in the history of realty development." Small wonder that one delegate facetiously demanded to know at least how many millions had been squandered on building gondolas in Venice. Another said, "We own a city and all that goes with it. You have heard about feeding a white elephant. We have a whole herd of them." Del. McIlvenny, Committee of Ten, gave the following lurid but conservative picture of the graft and extravagance in the B. of L. E. institutions (p. 2005):

"The extravagance in Florida surpasses the understanding or comprehension of the common lay member of any civilized community.

Hotels built on a cost plus basis, and we thought the war was over in 1918. A hotel that cost \$638,000 which was testified by one witness could have been built for less than \$400,000, and the actual cost report sent in by Bro. Huff to Cleveland was mislaid or lost. I wonder why? I don't know what it costs to build a city . . . but why should we maintain a fleet of busses, Buicks and Lincolns if you please, with an officer's nephew as superintendent of transportation at \$400 per month, with paid outside drivers, superintendents of farms, bathing beaches, sewers, ditches, hotel managers, bosses, and incidental help, tarpon boats, high-pressure salesmen, ad women with a 10% rake-off on sales divided up with the Mayor, certain superintendents, and Heavens knows who else. When we think of having paid a firm or realty company \$190,000 to cancel a contract because of their questionable methods without a protest or legal action of any kind, when we go across the street to our bank and see the waste and extravagance in this building, with our electric plant big enough to supply a city and not used, we paying for electricity to an outside company, when we go forty feet below the street and find an elaborate toilet room furnished in Italian marble and never used, you cease to wonder where some of our money has gone in extravagance. . . . Over in your bank you have 143 employees with salaries ranging from \$200 per month to \$10,000 per year."

Jugglery

The B. of L. E. "financiers" used every imaginable kind of deceit, chicanery, and manipulation in order to use the workers' funds as they saw fit and to inveigle the union membership into backing their speculations. For weeks the convention delegates were lost in a maze of tangled financial transactions worthy of Ponzi. Even Judge Newcomb was stumped. He said (p. 504), "When I follow some of these business transactions through their different companies into this company and on to another I am dizzy." Illustrating methods used, Del. Myers, Com. of Ten, said (p. 1292):

"Here you have every asset that we have frozen as tight as the North Pole. They have shuffled the loans from one thing to another in the

Investment Co. and back from the Investment Co., into the Realty Co. Why talk about Kellar, the juggler? They have got him beat 100%. It is pretty near enough to make a man insane to try to fathom out the conjuring and conniving that was done. . . ."

Del. Van Pelt, Com. of Ten, said (p. 366):

"The B. of L. E. Investment Co. bought the land in Florida. . . . It was found that the B. of L. E. Investment Co. under its charter rights could not hold real estate, so they organized the B. of L. E. Realty Co. The B. of L. E. Realty Co. gave its stock to the Investment Co. for the land. The Investment Co. sold the stock to the B. of L. E. proper, for which the B. of L. E. gave them notes. The Investment Co. goes down to New York and hypothecates these notes and gets the money and lends it to the Realty Co. That statement multiplied by a hundred will give you something of a picture of the situation across the street (in the bank)."

When the delegates, lost in such mazes, tended to concentrate upon and discuss the bad \$1,600,000 paper in the bank, Assistant Grand Chief Engineer Edrington interrupted, saying (p. 1973):

"I wonder why we should worry over a million and a half investment over here when we have a ten million dollar Investment Co., about thirteen million in Venice, and other things."

The labor financiers engaged in various shady and illegal practices. They carried too low bank balances; they made huge loans, contrary to law, between their various related institutions; they paid fake dividends to mislead depositors and stockholders; they voted the insurance and pension funds into their speculative companies; they hid the bankrupt condition of their enterprises by fake reports and the suppression of real reports. Thus Prenter tried to tell the Committee of Ten that there was but \$7,000,000 invested in Venice (p. 1402) whereas the records show at least \$16,000,000,

without counting private investments. Thus Attorney Squires declared (p. 1405) that their efforts to investigate Florida for the union were being blocked by union officials. Thus they overvalued by several hundred thousand dollars the stock carried on their books as assets. And thus the Committee of Ten (p. 355) pointed out a discrepancy of a million dollars in the report of the Treasurer on the union's obligations; the Investment Co. made a "paper profit" of \$2,500,000 by selling the Florida land to the Realty Co.; etc., etc. But the worst were the lies spun to make the engineers cough up their money to finance the wildcat banks and investment companies. To quote a few ads and statements, issued after the officials knew that the various investments were bankrupt:

"The B. of L. E. does not do things by halves. Its banks, its buildings, its Insurance and Pension Associations are as good as trained brains can create. Venice is being built upon the same high standard of achievement." (Venice promotion circular).

"Sales to the membership are made entirely by mail. The membership list is carefully guarded, and before the bond department can send out an offering to the members the approval of the Advisory Board of the Brotherhood has to be obtained and its members satisfied that the securities we offer are precisely what locomotive engineers and firemen ought to invest their money in." (A. B. Green, Vice-Pres. Cleveland Bank, *Saturday Evening Post*, Nov. 6, 1926.)

"The Investment Co. began to make money immediately and has continued to do so, paying its preferred dividends regularly and accumulating a substantial surplus."

"(The Cleveland office building) brings in an income which in fifteen years has paid the entire cost of building and land, enabling the organization in 1925 to finance another building, 21 stories and covering an equal area across the street (which is) a still more prolific source of income." (Inspired article by Stockbridge in *Saturday Evening Post*, Nov. 6, 1926.)

Judge Newcomb read the following fake advertisement,

saying (p. 1407), "What a far cry from that prospectus to the situation in your Investment Co. That describes anything in the world. It does not describe your Investment Co.":

"The holdings in the Investment Co. will consist of carefully selected investment securities of the highest grade, all of which have a substantial value pledged to their redemption in excess of the price paid for them. Proceeds of the present (stock) offering to be used for the purpose of various types of income-producing investment securities, such as Government, municipal, public utility, real estate, corporation bonds and the like and for investment in stocks of banks and trust companies."

Del. McGuire, Committee of Ten, paints this picture of the whole financial jugglery (p. 360):

"His (Stone's) idea in his lifetime was to be President of all these institutions, but the Comptroller cut his wings. He said, 'You can't do it; under the banking law an officer or director cannot hold a position as an officer or director in other than three banks, and then only when allowed by the Federal Reserve Board in his District.'

"Even the law can be circumvented. The thirst for power remained unappeased. A way out was provided through the state law. A holding company was set up. Every agency known was used as a lure to the unwary. With the success of the bank dangling before their eyes, was it any wonder that the saleable stock was quickly disposed of, particularly when such exciting titbits even appeared in the prospectus as this: 'Please remember that the rule is, First come, first served. Do not blame anybody if you fail to secure some of the bonus common stock.'

"Gentlemen, it was ever thus. The spider will continue to spin the web for the fly. Again a success was registered. The Brotherhood Holding Co., with its paltry million, must give way to greater things—why not move on—the multi-million succeeds the million.

"The state law was convenient, yes inviting. The Brotherhood Investment Co. blossomed out shortly thereafter as a \$10,000,000 institution. Money came in easy. Why not control the coal market? Why not indeed? \$2,500,000 was placed in Coal River Collieries. Then

came in quick succession many other institutions, all of which have since gone into decay."

Autocracy

The convention disclosures showed to the engineers how autocratically the officialdom ran the B. of L. E. In his day Stone was an absolute dictator. Read what a few delegates said:

"Warren Stone was a Czar. He told us what companies we should be directors of. He said, 'You will be a director of this, you will be vice-president of this.'" (Grand Chief Engineer Johnston, p. 1763.)

"Warren Stone between conventions was practically the convention." (Del. Waite, p. 689.)

"Nobody at the last convention or prior to that time could come in here and express himself as he wanted to or as he knew the exact situation was at that time, because he was sat down so hard that he would scrouge in his seat and was afraid to get up. It was ruled by an iron hand and strong arm." (Del. Mayfield, p. 1305.)

"When they wanted to buy a building up on Euclid Ave. (later Park Lane Villa), a \$1,400,000 transaction, Brothers Stone and Prenter bought that building without ever coming to the convention for authority. He (Stone) didn't even consult the other resident members of the Advisory Board that were in the building at the same time." (Del. Simpson, p. 1283.)

Stone's word was law. He was a sort of uncrowned king. Those who opposed him he crushed, such as he did Futch of the Pension Association, who was arbitrarily removed because he was against some of Stone's wild ventures. Surrounded by cringing syncophants, he was irresponsible. Prenter was his man Friday. Del. Huff (p. 1344) said:

"Between May 15th and perhaps the 25th of May, 1925, we were called together here and coming like a bolt of thunder out of a clear sky, the report of our terrible plight was thrust upon us. At that time Brothers Stone and Prenter made certain confessions about having withheld information from us that should have been ours, and

told us what we must do to save the situation. They said the only thing to do was to underwrite, if you please, I think about \$4,000,000 worth of stuff that was in bad shape here in the Investment Co."

Upon receipt of this news Johnston, Huff, and Bissett made a weak fight to have a convention called. But upon Stone's opposition they gave up their demand and allowed him to go ahead with his criminal speculations at the expense of the membership. Stone died shortly afterward. His clique went right ahead on the same lines, even outdoing Stone for recklessness and irresponsibility. They went into Florida, spending millions of dollars, without so much as a by-your-leave from the members. They asked no permission for that any more than they did for dozens of other deals, many of them contrary to the union constitution, and involving millions of dollars. Thus said Del. Van. Pelt, Committee of Ten (p. 1305):

"On the same day (in Venice, Nov. 6, 1926) they (four members of the Advisory Board) turned over to (session) of the membership of the Board of Governors of the Pension Association and lent themselves \$200,000. It was not a quorum of the Advisory Board, not a quorum of the Board of Governors, and not a single one of them was a Trustee of the Pension Association, if you please."

Incompetency

The fakers at the B. of L. E. convention had two favorite methods of creeping out of responsibility for the terrific debacle. One was to blame it all on Stone, and the other was to plead ignorance of banking as a cause for their "mistakes." As we shall see later, the capitalistic "saviors" who appeared at the convention with plans to rescue the union, skillfully played upon this conviction of the delegates that engineers cannot become bankers.

To try to explain away their wild speculations and their organized graft on the basis that they did not understand bank-

ing was worse than ridiculous. No doubt ignorance played some part, but it was not the decisive factor. Venice, with all its corruption and waste, was not the result of stupidity, but primarily of crooked manipulation. And so it was with the B. of L. E. trade union capitalism generally. The whole thing constitutes the greatest mass of grafting in the history of the American labor movement. Stone and Prenter make Brindell and O'Donnel, the New York and Chicago building trades fakers, look like tyros.

CHAPTER V

SOME "SAVIORS" APPEAR

WITH the B. of L. E. in such dire straits financially and with its various properties virtually on the auction block, it was not surprising that there should develop capitalistic "friends" eager to "help" the workers through their crisis. There were two such "saviors" at the B. of L. E. convention: Dr. A. A. Mitten, son of the head of the Philadelphia Rapid Transit Co., Thomas E. Mitten; and Judge A. G. Newcomb, member of a Cleveland law firm and attorney for the Committee of Ten. Both presented plans to the convention to save the shattered financial institutions.

The Mitten Plan

The Mittens are Czars of the Philadelphia traction situation. They operate a company union among their employees to more completely chain them to the company's interests. Their institution is equipped with all the up-to-date welfare systems, insurance plans, and especially employee-stock-buying schemes, calculated to demoralize the workers and to prevent their organization in real trade unions. Dr. Mitten had the crust to boast in the convention about his breaking the Buffalo street car strike. And many delegates actually applauded the

remarks of this union crusher, the convention being made up largely of paid union officials. Dr. Mitten is an outstanding advocate of the theory that the workers can become capitalists by investing their savings in industrial stocks. He used this line as an approach to the delegates, saying (p. 387):

"I have been preaching the same philosophy that you fellows have been preaching—labor must become capital. The B. of L. E. flashed a banner across the world, 'Labor has become Capital.' You are in. You are on the front seat and everybody is looking at you. If the B. of L. E., who are the headliners, the prima donna in this show, flunk, what the hell do you think I am going to say?"

The main outlines of Mitten's plan were as follows (p. 493):

"First, I should expect that you would adopt as your own policy the Mitten industrial philosophy of increased compensation for increased efficiency, to the end that labor become capital.

"Second, I should require that the financial reorganization of your investment companies be so arranged that such of your assets as required considerable time to be successfully worked out, be trusteeed, and the immediate cash required to be supplied through or by your own organization.

"Third, I should expect the entire membership of the Brotherhood, and especially their elected representatives on the boards of directors, to so cooperate in the development of the banks—which are to be financed and operated under my direction—as to make them a great chain of powerful financial interests."

Pursuant to this scheme, Dr. Mitten proposed the organization of the "B. of L. E.-Mitten Banking Corporation," with a capital stock of \$10,000,000, of which \$5,000,000 was to be paid in immediately, \$2,500,000 by the B. of L. E. and the same amount by the Mitten interests. The new corporation should buy all the shares of the banks, trusts, and distributing companies controlled by the B. of L. E. The B. of L. E.

should guarantee all inter-company debts, all inter-company investments, and all questionable assets, as Mitten would require. To govern the banking corporation there should be a board of directors of 13, of these 6 from the B. of L. E. and 7 from the Mitten interests, giving Mitten control.

This would take care of the banking institutions. As for the investments in real estate, industry, etc., Mitten proposed the formation of a second corporation to be known as the Investment Development Company, with authorized capital of \$5,000,000, of which \$1,000,000 was to be put in immediately by the B. of L. E. companies. Debentures to the extent of \$25,000,000 should be sold to the B. of L. E. members (Mitten expressly forbade their sale to the general public) to finance Venice, Coal River, Park Lane Villa, etc. Of the board of directors, the Mitten interests should have 7 out of 13, the controlling interest.

Dr. Mitten presented his plan enthusiastically. He declared it meant the salvation of the union and its financial investments. He added that only by labor becoming capital could Communism be defeated. He said that in five years the engineers would have \$500,000,000 in their banks. Failure to accept his plan would bring stark ruin on all fronts.

Mitten's plan comprised nothing short of a brazen attempt to capture not only the B. of L. E. financial institutions, but also the union itself. He aimed to become dictator of the whole situation. Financially the B. of L. E. would have been helpless. It would have had all the obligations, and Mitten all the control. Mitten could have bought, sold, and traded, just as he pleased and then forced the B. of L. E., which had guaranteed everything, to pay as he directed. The union would have been enslaved for years trying to buy the \$25,000,000 of debentures to put into their dead investments. Meanwhile, what a golden field of graft these would have remained. Mitten's plan was especially a scheme to grab off the banks. He was willing to put his name and

money into them. But he would have nothing to do with the real estate, and other investments. No name, no money for them. Just push them off in a side company with him in control and the B. of L. E., hogtied, to pour endless millions into them as he directed. He would even have dictated the industrial policy of the union, the acceptance of his "labor becoming capital" ideas being one of the considerations for the adoption of the whole program. Mitten's plan was a gigantic scheme to company-unionize the B. of L. E.

The most monstrous part of this attempt of Mitten to enslave the B. of L. E. was that it came before the convention with the connivance of the "Grand" officers of the union. Undoubtedly, as Judge Newcomb said (p. 1407), Prenter's aim was "that the Mitten plan would come out here and slip through quietly and you would elect your officers and go your way." Webb was openly for acceptance. The Advisory Board welched under the attacks made on the Mitten plan at the convention and denied endorsing it. But Mitten said they had, stating (p. 381):

"They (the Advisory Board) came to us, I think, feeling that the same ideals that we represented here in Philadelphia (labor becomes capital) were those that you represented nationally in labor circles and we perhaps might get together to the advantage of both."

Further, he declared (p. 388):

"We originally, as your Grand Advisory Board will bear me out, were interested in entering into this from the point of view of the bank, *but at the earnest insistence of President Prenter and the members of the Advisory Board* [italics mine—W.Z.F.] we respectfully agreed . . ." (to take up the second phase about the real estate, industries, etc.)

Mitten had grabbed off the Philadelphia labor bank. He had his understanding with Prenter, Webb, et al. The combined engineers' unions of Philadelphia had endorsed his

proposals (p. 488), and Del. Moraghan (p. 2016) asserted that a bribe of \$40,000 was in prospect for certain members "if they could have rammed the Mitten plan down our throats." It looked like easy sailing for Mitten. But the opposition was too strong. Mitten was "given the mitten." His co-conspirators against the union turned him down and said they knew him not. Disconsolate, he left, saying (p. 509):

"I felt that I was coming here with the full approval of the Advisory Board, the only authority for the Brotherhood that I know of."

The Newcomb Plan

Judge Newcomb, representing local Cleveland capitalists, also had his plan. His first job was to smash Mitten, and he did it with neatness and dispatch. He, not the union officials or delegates, exposed and blocked the Mitten schemes. But he did it in order to foist upon the union another "plan" about equally bad. Being attorney for the Committee of Ten, he had Mitten at a disadvantage. Mitten had to submit his proposition in detail to the convention. Newcomb then shot it full of holes. Mitten lacked the wit to force Newcomb to bring forth his own scheme, which Mitten could likewise have destroyed. Newcomb was able to spread it before the convention a bit at a time, so that the whole pattern did not at once appear. It remained a mystery to most of the delegates. The struggle between the Mitten and Newcomb capitalist interests for control was the high light of the convention. The delegates were lost in the financial fog. Mitten was overwhelmingly defeated, and Newcomb's proposals went over complete. The union was saved from the Mitten frying pan only to fall into the Newcomb fire. As expressed in convention decisions, the main outlines of Judge Newcomb's proposals were as follows:

The first step was to bow to the strong sentiment of the

rank and file by adopting the following resolution condemning the policy of trade union capitalism:

"Whereas our endeavors in the banking, investment and realty development since 1915 have not been what with propriety might be termed as entirely successful,

Resolved, that it be the policy of the B. of L. E. to liquidate our banking, investment and realty interests at the earliest possible moment and in such a manner as to occasion the least possible loss."

The next step was to separate the union's financial business from its regular trade union activities. Thus the union administration was divided into two sections, (1) Protective, (2) Financial. The Protective Department, directed by the Advisory Board, shall devote itself to ordinary trade affairs; the Financial Department, with jurisdiction over all investments, buildings, insurance and pension funds, etc., except the Cleveland bank, is headed by three Financial Trustees. These Trustees, who have large freedom of action in financial matters, report occasionally to the Advisory Board. Over the Trustees, to check them up from time to time (applause from the delegates) stand the Committee of Eight. This division of trade matters from union finance, while satisfying the universal demand of the delegates for such separation, also fitted in very nicely with Judge Newcomb's plans for control.

Judge Newcomb, like Dr. Mitten, was out especially to "save" the Cleveland bank. Like Mitten again, he agreed that engineers could not be bankers and that the only way to "save" the bank was to turn it over to a group of idealistic capitalists, but his capitalists, not Mitten's. Therefore, he proposed and it was accepted that while the B. of L. E. should own 51% of the stock, to be voted by Grand Chief Johnston, "the Board of Directors of the B. of L. E. Cooperative National Bank be filled as rapidly as possible by a majority of directors who are not members of the B. of L. E." Then

he had the convention guarantee the bank's deposits and other obligations. He hastened to assure the rank and file, who wanted complete separation of the Protective and Financial departments (p. 1887), that "Grand Chief Engineer Johnston will not have to spend a minute in that bank after you are able to get the proper set of directors." Johnston is being put in, he said, "because he will attract deposits from all over the country" (p. 1877). Judge Newcomb said, "We are building up scenery, that's all." The Financial Trustees are made to keep "hands off," so they can not put any phony paper through the bank. All of which efforts to perpetuate the bank, as well as other of the financial institutions, were contrary to the resolution which instructed that they be disposed of "at the earliest possible moment."

Now let us see what this amazing bank proposition means. First, the engineers shall turn their bank control over to Judge Newcomb's Board of Directors so they can carry on such business as they see fit. Second, the B. of L. E. shall own a majority of the stock so that it is responsible for all losses. Third, Johnston will be only a dummy President to pull in the poor fish and shall not "spend a minute" in looking into the affairs of the bank. What a golden opportunity for speculation and graft, with the open-hearted, soft-headed B. of L. E. guaranteeing all the bank deposits. And for this golden opportunity Newcomb's capitalists will pay nothing, except to purchase a few shares of stock which the law requires them to have in order to be bank directors, an estimated total of \$20,000. Mitten, whose basic plan was identical, was at least willing to put up \$2,500,000 in order to get into the gravy.

Regarding the various investment projects—Venice, Park Lane Villa, etc.: Mitten's plan to handle this herd of white elephants by organizing a couple of new companies and selling \$25,000,000 or so stock, was a stupid one to present to a union membership so badly disillusioned and disgusted with

such companies and stock-selling. Newcomb was cleverer. He formed no new companies. He simply loaded the entire outfit, except the Cleveland bank, upon the Financial Trustees, to let them worry over the huge deficits. Then, instead of trying to make them carry the whole load of worthless investments, he sold Park Lane Villa during the convention and forced Coal River Collieries into bankruptcy by having the Investment Co. bring suit for \$1,775,000.

As for Venice, the Judge manifestly wants to stay in there, in spite of the convention resolution to liquidate such investments. That is too good a golden goose to give up. In the *Chicago Tribune*, August 9, Newcomb's dummy bank president, Grand Chief Johnston, makes reference "to the Florida holdings of the Brotherhood, to the continued development of which the Brotherhood is definitely committed." So the suave Judge will try to feed that elephant with the workers' money. As for raising money to meet debts, the Judge sold no stock, and made no promises. He simply told the workers they were legally responsible for the deficits, and that if they did not pay willingly the sheriff would collect from them. Never tired of waving the Danbury Hatters' decision in their faces, he talked assessments and further pledging of the organization's resources. He warned against suits and the destruction of the union.

Judge Newcomb's plan, especially the proposition regarding the Cleveland bank, met with considerable opposition. Del. Stockwell struck a popular chord when he said the proposal is (p. 1878) "to hand over the bank to a hand-picked crowd of Cleveland business men and give them ten shares apiece so they can exploit the bank. Do you suppose they will be loyal to that bank. They have been against it ever since it has been set up." Many delegates were skeptical of the plan. But as Del. Shumaker put it (p. 1856), their attitude was, "Let's take another chance for three years." Or, as another delegate said, "Let's shoot the whole works."

But opponents and doubters were swept aside. Judge Newcomb and the Johnston crowd were in the ascendancy; Mitten and the Prenter gang were on the skids. The suave and eloquent Judge was made quite a hero, the savior of the union. Chairman Myers of the Committee of Ten said (p. 2128), "Newcomb has been a father to us." So the Judge was thanked and made an honorary member of the union. And his plan, which takes the Cleveland bank from union control and which ties the B. of L. E. to a lot of hopeless investments, was adopted practically 100%.

CHAPTER VI

PAYING THE PIPER

IN the hope of clearing away the financial wreckage caused by the untrustworthy leaders, the convention adopted a whole series of financial and organizational measures, some of which have already been indicated. These followed the lines of Judge Newcomb's plan.

The General Program

Although the convention clearly and correctly instructed the leadership to extricate the union from the morass of trade union capitalism by selling out the many business enterprises "at the earliest possible moment," Judge Newcomb and the new leaders have found ways to balk this will of the membership. They are not getting rid of these institutions as a whole, but only certain ones of them. They still cling to trade union capitalism. Park Lane Villa was sold during the convention for \$1,250,000 and Coal River Collieries, a total loss, was forced into the hands of the receivers through the Brotherhood Investment Company bringing suit against it for \$1,775,000.

As for the various banks and other financial institutions, a few of the smaller ones, hopelessly involved financially, may be liquidated to relieve the pressure somewhat. But the central institution, the Cleveland bank, Judge Newcomb is determined to perpetuate. He gave it a new financial foundation by having the B. of L. E. guarantee its deposits and then dig up \$1,700,000 to take care of its bad paper. He also gave it a new management by drawing into the Board of Directors a body of capitalists under the head of C. H. Huston, former assistant to Herbert Hoover, and also Secretary of the National Republican Ways and Means Committee. So the bank is safe—in the hands of the capitalists.

Venice, the Judge intends to have the union hang on to. Fresh millions will be poured into that sink hole. Grand Chief Johnston has publicly stated that the B. of L. E. is committed to its development project in Florida. So that's that, notwithstanding the clear determination of the membership to get out of Florida as quickly as possible, and the sooner the better. Those who object to continuing in Florida are told the sophistry that they are financially bound already and they must stick or lose all they have.

Financial First Aid

To breathe the breath of life again into the wrecked B. of L. E. institutions vast sums of money are necessary. The banks and investment companies are loaded with "frozen assets," or worthless paper; the realty projects are encumbered with debts. Suits menace from all sides. At present writing the Brotherhood Investment Co. faces four suits from stockholders. Venice confronts a suit for \$7,500,000. In a suit against the New England B. of L. E. Securities Co. the bill, charging illegitimate and illegal practices, states that "the stockholders were led to invest by gross misrepresentations and promises of ridiculously high profits."

The B. of L. E. membership is the good milch cow from

which to squeeze the many millions required for Newcomb's plan of saving the banks, investment companies, Venice, etc. The biggest stroke to raise money was to slap a \$5.00 monthly assessment upon the entire union membership for two years. The B. of L. E. has 90,000 members, of whom 60,000 are active and they are supposed to pay the assessment. This would give a total of approximately \$7,200,000. Never did a union have to face such a huge tax. Already the dues and insurance fees in this union often run as high as \$30 monthly. Or, if the members do not like the assessment they can voluntarily buy "Loyalty Bonds" at \$100 apiece. So that there may be plenty to go round, \$10,000,000 of these have been issued.

In addition to this, \$4,000,000 more, needed to meet pressing needs to buy up worthless paper, was raised by placing a new first mortgage on the two office buildings, which makes practically worthless the \$7,000,000 mortgages already held by the insurance and pension departments. Then there was a further bleeding of the already anaemic insurance and pension funds to the extent of several hundred thousand dollars. An additional \$5.00 assessment (\$300,000) to pay part of the \$1,000,000 convention expense was only a detail of this high finance convention.

Then, after all these huge burdens, totalling a minimum of \$11,500,000, were loaded on the members, there was the statement of Myers, Chairman of the Committee of Ten, that the organization can look forward to owing at least \$8,000,000 at the end of two years.

The delegates took with ill grace the piling of these fresh obligations upon their previous losses. Huge losses were reported by hundreds of delegates. One said (p. 57) "the members of (lodge) 565 lost \$55,000. Another said (p. 63) "\$50,000 wouldn't scratch the surface in my neck of the woods." And another (p. 84) "I represent 250 members and they have over \$100,000 invested." Only the fear of com-

pletely losing these investments, which in hundreds, if not thousands of cases, represented the savings of a life time, together with Judge Newcomb's warnings that the members were legally responsible for all the financial obligations of the B. L. E., led the delegates to assume these additional enormous monetary burdens in Newcomb's futile plan of trying to make the various banks and investment projects stand up.

Del. Quinlan (p. 1974) thus sized up the financial situation of the union:

"Now we are going back and tell our members that we have mortgaged everything here . . . but the wife and children, and if they were any good (financially) by God we would have mortgaged them, too."

Punishing the Guilty

Someone, of course, had to be blamed for the terrific B. of L. E. financial debacle. Warren S. Stone was the center of attack. His reputation as a great labor leader and banker, so widely cultivated in the trade union and capitalist press, was irretrievably shattered. His personal character was excoriated. In the traditions of the B. of L. E. he will be remembered as an arch wrecker of the union. Del. Waite (p. 2038) voiced the general rank and file opinion when he said:

"We all know that Brother Stone died just in time to save his reputation with the outside world. He didn't save it with us."

But Stone is dead, and after his death the officials carried on even wilder speculations than did Stone himself. The guilty ones had to be singled out and punished. The convention therefore blamed W. B. Prenter, Pres.; L. G. Griffing, 1st V. P.; H. P. Daugherty, 2nd V. P.; and C. E. Lindquist, Gen. Secy. They, together with the financial "expert," G. T. Webb, were made to carry the whole responsibility. On

the other hand, Johnston, Bissett, Edrington, Huff, and others, members of the former Advisory Board, were white-washed by the convention, considered as saviors of the union, and given the leadership of the organization, Johnston getting a salary increase from \$13,000 to \$15,000.

The real fact is that Johnston and his group were just about as deep in the mud as the Prenter crowd were in the mire. They knew what was going on and participated in it. It would take a Philadelphia lawyer to explain where they are less guilty than the others. For example, when Stone, in 1925, revealed the \$6,000,00 deficit in the union finances, Johnston and his group, after mildly proposing the calling of a convention, acquiesced when their proposal was voted down. They permitted the situation to go from bad to worse without saying a word of warning to the organization. They could have forced the calling of a convention easily had they been so desirous. But they condoned the whole business. They, too, are responsible for the debacle. But their group had control of the convention. They now are in charge of the union. A splendid prospect indeed for the B. of L. E.

The culprits, with the exception of Prenter, whose trial was laid over till next convention because he was too "ill" to appear, were tried in open convention. The days' long trials, together with the weeks' long effort to untangle the financial maze, made the convention cost at least \$500,000 additional—a last little bill of expense for these fakers.

Griffing, Daugherty, and Lindquist were variously charged with "such carelessness, laxity, and indifference" as to unfit them to hold union office; with illegally obligating the B. of L. E. for debts; spending without authorization over \$2,000,000 of B. of L. E. money; guaranteeing without authority the indebtedness of the Brotherhood Investment Co.; permitting extravagance and mismanagement in the bank; lending without sanction the funds of the insurance and pension departments; receiving \$2500 from Baldwin through Webb for

selling the Equitable stock; misrepresenting the true state of affairs to the membership, etc.

The accused officials defended themselves, but unsuccessfully. By a vote of about five to one they were condemned. The positions of President and 1st and 2nd Vice Presidents were abolished. The following resolution was adopted:

"Resolved, that L. G. Griffing, H. P. Daugherty, and C. E. Lindquist be forever barred from holding office in or under the jurisdiction of the Grand International Division (convention) of the B. of L. E."

They were not expelled from the union, although their criminal activities had almost wrecked it. They were not directly convicted of dishonesty or graft, although the whole situation reeked with it. Had not the union come to the rescue financially of the wrecked banks and investments, doubtless the officials would have been jailed by their victims for illegal practices. The convention let them off lightly. Grand Chief Johnston even ruled that the sentence against them, while barring them from holding office in the Grand International Division, did not prevent them from occupying the fat jobs "in their own division, such as General Chairman, etc."

Much opposition developed among the delegates against this mild treatment of the corrupt officials. Del Kelsey said (p. 1935):

"If we leave here without prosecuting these Brothers who have defrauded our membership by appropriating certain sums of money, by turning them over to the U. S. authorities, who will put them where they belong, we will not have performed our duty."

Kelsey's sentiments were widely echoed among the rank and file delegates. But Newcomb and Johnston, for reasons best known to themselves, were out to protect Prenter and his crowd as far as possible. They prevented all drastic action. The convention, however, forbade all officers and members

from using the name of the B. of L. E. "to promote any business scheme" on their own hook. Dire threats were made against future grafters by the adoption of a resolution which warned that in the future all "officers of this organization found guilty of the mishandling of funds or any criminal actions will be prosecuted."

CHAPTER VII

A FEW USEFUL LESSONS

THE experiences of the B. of L. E. with its labor banks and investment companies emphasizes dramatically the destructive effects that trade union capitalism has upon the labor movement. In previous chapters we have pointed out these many bad results and their significance. Here our task is to summarize them and to develop a corrective program.

The Harmful Effects

Trade union capitalism militates directly against the growth and development of the labor movement in various ways, but chiefly by killing in the unions the idea of struggle against the employers and setting up instead theories and practices based upon the false conception that in order for the workers to make progress they must collaborate with, or more properly, subordinate themselves to, the employers. The class collaboration policy of which it is a part denies the fundamental conflict of interests between the working class and the capitalist class.

Labor banks and similar institutions divert the attention of the unions away from their proper functions as organs of direct struggle against the employers and turn their activities into enervating and corrupting capitalist business channels. The real tasks of building the unions and defending the workers'

interests are forgotten. Thus Grand Chief Johnston said correctly (p. 2133) "Ninety per cent of our time has been spent discussing the financial activities and no time has been given to the Brotherhood." Such neglect saps the unions at their very foundations.

The misdirecting of the unions into capitalistic business draws them inevitably, or rather their leaders, into the most demoralizing alliances with the employers. The B. of L. E. banks and investment projects are tied up with all sorts of labor-crushing capitalists. Inevitably the union leadership thus falls under the control of these enemies of the workers and does their bidding. Thus we see such shameful spectacles as Warren Stone endorsing, in 1924, the great multi-millionaire labor exploiter, Coleman Dupont, as a "friend" of labor in the Delaware senatorial elections. Thus we see the union leaders cheek by jowl with the great Wall St. capitalists, as in the Equitable deal. And so long as the union engages in capitalistic business, just that long the employers will control the various banks. Significant was it that at the B. of L. E. convention the choice presented was whether to turn the banks, etc., (and with them a large share of union control) over to the Mitten capitalists or to the Newcomb capitalists.

Trade Union capitalism inevitably cultivates among the workers demoralizing illusions that the workers, by thrift and the investment of their funds in capitalistic stock, can actually buy control of the industries. This is a rank fallacy. The great masses of workers, with the exception of some categories of favored skilled workers who can lay aside a few dollars of savings in this period of "prosperity," live at the poverty line. The average weekly wage of adult male workers is only \$29. What can the workers save on such wages? What little money the workers are able to set aside is largely the equivalent of the unemployment, old age, and sick benefits the European workers receive from their governments. American workers are very much unprotected by social insurance. They

are compelled, as individuals, to make provision for old age, sickness, and unemployment. The theory the workers can become capitalists is a delusion and a snare for the workers. It prevents the workers from building militant labor organizations, industrial and political.

We have seen sufficiently how trade union capitalism undermines and corrupts the trade union leaders. It turns them into conscienceless grafters, speculators, and swindlers whose chief thought is to exploit the funds of the workers for their personal enrichment. The B. of L. E. has had more than plenty of experience with their exorbitant salaries, their crooked expense accounts, and their padded payrolls loaded down to the sinking point with parasitic friends and relations. Trade union capitalism builds a powerful and reactionary bureaucracy in the union and its auxiliary financial institutions which stands like a rock in the way of every step forward by the workers.

Lastly, to cite no more of the destructive effects, trade union capitalism leads to robbing the workers of their savings and to the looting of the union's funds. For proof, look at the B. of L. E., with its estimated loss of \$20,000,000 and the hundreds of its members who have lost their life savings. Labor unions as such, and as distinct from the working class in control of industry through its own government, cannot run business institutions, despite Stone's "peanut stand" theory. Experience shows that where it is tried under capitalism the union officials, who control autocratically, either steal the thing to death or wreck it by incompetency. Where the workers will organize their savings, where they will start industrial enterprises of any kind, they must do it, not directly through their labor unions, but through real cooperatives organized apart from the unions and controlled democratically by the rank and file. This is the constructive way. The system of building trade union capitalist institutions now in vogue ruins both the workers industrial enterprises and their unions as well.

Prenter says that labor banking "has demonstrated Labor's complete answer to the theories of Marx and Lenin." But we have seen what a false alarm labor banking is, with all its visionary promises and action-killing illusions. Intelligent workers will be inclined to look a little more closely at the "theories of Marx and Lenin" which manifestly labor banking has failed signally to refute.

The B. of L. E.'s Problems

The B. of L. E. convention did not meet its task squarely. It did not cut loose from trade union capitalism; it did not remove from leadership the type of men responsible for this unprecedented debacle; it did not take proper steps to strengthen the union; it piled sky high useless and impossible debts for the members to pay. To correct these failures is now the task of the membership.

The most necessary step is to demand imperatively the immediate liquidation of the financial companies and investments in the sense of the convention resolution. The union must cut loose from trade union capitalism and its destructive theories. So long as these bankrupt organizations and false ideas are maintained the poison sore will exist. To continue to pay the huge assessments and to buy "Loyalty Bonds" to finance Venice and similar ventures would be a useless folly. The way to get rid of these heavy burdens is to absolutely insist upon the whole wild cat business being disposed of as quickly as practicable, even though it takes a special convention to achieve these ends. No permission, no secessionism should be allowed to creep into the ranks. The B. of L. E. must be cleansed and built.

A new and progressive type of leadership must be developed. The Johnstons, Huffs, Edringtons, and Bissetts are not qualified to lead the union. Their failure to stop Stone's and Prenter's wild speculations or to advise the rank and file of them is sufficient proof of their unfitness for union office.

Prenter, Griffing, Daugherty and Lindquist should be unanimously expelled.

The B. of L. E. needs, moreover, to be modernized in many other respects. It must become more of a labor union and less of an insurance society. It should get rid of its class collaboration ideas and adopt a more militant policy. It should combine with the Firemen, as a prelude to a general amalgamation of all railroad unions into one gigantic organization, to include every railroad worker. It should democratize itself from top to bottom and be done once for all with the autocratic practices of Stone and Prenter. It should drastically cut the salaries and expense accounts of its officials. It should support the progressive elements who condemn the infamous Watson-Parker railroad laws and its arbitration traps. It should declare for the nationalization of the railroads and for the formation of a labor party. Such a program, realized would make the B. of L. E. what it should be—a powerful, militant and progressive labor organization.

In Conclusion

Not only the locomotive engineers, but all of organized labor should learn from the bitter experiences of the B. of L. E. trade union capitalism, its institutions and its false theories, are widespread in the labor movement. And they tend in the same general direction as in the B. of L. E. towards the spreading of class collaboration illusions, the further corruption of the leaders through speculating, graft, destructive alliances with the capitalists, and to the general weakening of the labor movement. Although not so dramatically evident as in the case of the B. of L. E., similar disintegrating tendencies are at the work in the labor banks, investment corporations and trade union life insurance companies of other unions (see for example the collapse, through "frozen assets" of the Philadelphia and Pittsburgh labor banks). The situation is so dangerous that even the ultra-reactionary A. F. of

L. Executive Council has had to issue a sharp note of warning against it. In the report to the 1927 Convention of the A. F. of L. in Los Angeles, the Executive Council said:

"Experience in this field has now sufficiently cumulated to make a solemn warning imperative. Great care and sound judgment should be exercised before labor unions and members of labor unions put their money into labor bank promotions, or into investment companies . . . Since the recent development in the B. of L. E. financial activities, more and more attention is being directed to the manner in which labor banks are financed and conducted. . . . In our judgment the time has come to stop expansion in the field of labor banking until experience with those labor banks already organized shall have been critically studied and evaluated."

This cautious statement admits the deep crisis in the trade union capitalism movement. But it does not indicate the remedy. The way out is not for the unions to try the hopeless task of seeing to it that their banks and investment companies are honestly and efficiently run. The evil goes much deeper. The whole system is wrong, in theory and practice. The theory of labor becoming capital is false, and the practice of the unions to build labor banks and investment companies is wrong.

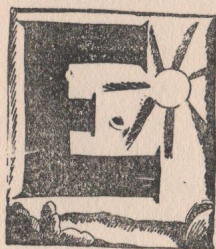
The unions must cut loose from the labor banks and their destructive influences and be re-developed as fighting organizations. Not the gathering together of the workers' dimes by the trade union capitalist institutions and the cultivation of illusions that the workers can buy their way out of wage slavery, but the building up of the workers' organizations, by organizing the unorganized, by amalgamation, by democratization, by adopting a militant policy of struggle, by launching a labor party—that is what the labor movement needs. The B. of L. E. financial debacle dealt a heavy blow at trade union capitalism. If considerable portions of the workers can get even an inkling of the lessons of this important event, the harsh experiences of the B. of L. E. will not have been in vain.

THE END

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The Trade Union Educational League asks all workers, regardless of political belief, to join it to realize the following program: 1. Organization of the Unorganized. 2. Amalgamation of craft unions. 3. Class struggle against class collaboration. 4. Fight against company unionism. 5. The formation of a Labor Party based on the trade unions. 6. Elimination of corruption and gang rule in the unions and for democratic rule by the membership. 7. No racial, sex or age bar to admission of workers to unions. 8. For Recognition of the Soviet Union. 9. Support of all workers' struggles and all workers' organizations, economic, political, co-operative, etc., against capitalism. 10. An alliance of American laor with peoples oppressed by American imperialism in a common fight for mutual interests. 11. Trade Union Unity, nationally and internationally.

The Trade Union Educational League is in no sense a dual union or affiliated with dual unions. It is opposed to such movements as take militant workers out of trade unions and form "perfect" little so-called unions with few members as rivals to large trade unions. The T. U. E. L. is an educational body seeking to develop the trade unions into more effective organizations for the workers. For further details apply to the

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